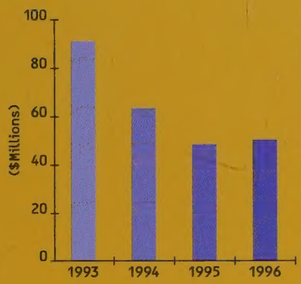
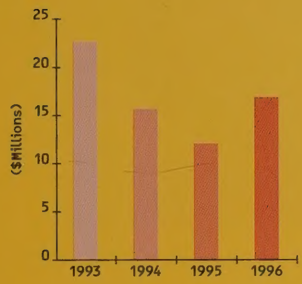
CLEARLY CANADIAN BEVERAGE CORPORATION ANNUAL REPORT 1996

Corporate Profile

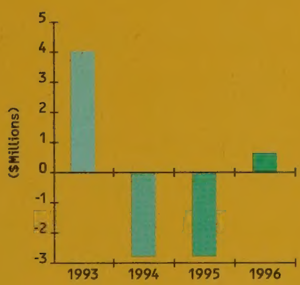
Clearly Canadian Beverage Corporation is a leading producer in the Alternative Beverage industry. The publicly held Company trades on both NASDAQ and the Vancouver Stock Exchange. Based in Vancouver, British Columbia, Clearly Canadian distributes its line of premium niche beverages, including Clearly Canadian® sparkling flavoured water, Orbitz™ and Clearly Canadian Natural Artesian Water in the United States, Canada and numerous countries worldwide.



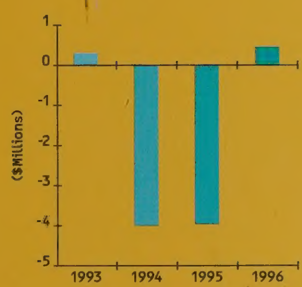
TOTAL SALES



GROSS PROFIT



OPERATING INCOME



NET INCOME

Financial Highlights

Year-end December 31	1996	1995
Total Sales	$50,082,000	48,200,000
Gross Profit	$16,813,000	12,072,000
Operating Income (Loss)	$ 631,000	(2,632,000)
Net Income (Loss)	$ 450,000	(3,970,000)

All amounts in this report are in U.S. dollars unless otherwise specified.

Chairman's Message

"Emerging from a successful restructuring, Clearly Canadian Beverage Corporation is financially stronger, more diversified and poised for future growth."

The year 1996 presented numerous challenges to Clearly Canadian and produced many positive results. It was a year in which the Company continued to follow the strategic blueprint established three years ago in its restructuring plan.

Perhaps the most important accomplishment in 1996 was Clearly Canadian's success in stabilizing earnings and returning to growth and profitability.

Operationally, we gained significant control of our distribution destiny by completing several acquisitions of distribution rights in the U.S. and Canadian markets.

The Company focused its marketing activities on its two best selling brands. We conducted the most successful product launch in the Alternative Beverage category in 1996 with the North American introduction of Orbitz. At the same time, we stabilized sales in key markets of our Clearly Canadian core brand, which continues to be one of the most popular flavoured sparkling waters in the U.S. and Canada.

Clearly Canadian was busy with acquisition activities in 1996. Although we did not acquire all of the shares of Sun-Rype Products Ltd., we did become the single largest outside shareholder of Sun-Rype, which is one of the leading juice manufacturers in Canada, with sales in excess of $72 million (CDN) annually. Clearly Canadian also acquired all of the shares of Blue Mountain Springs Ltd., resulting in the settlement of the previous litigation between Clearly Canadian and Blue Mountain. This acquisition will provide Clearly Canadian with significant expansion opportunities and a valuable high quality spring water source for its products.

Return to Growth and Profitability. Sales revenues of $50,082,000 for the year ended December 31, 1996 have increased from $48,200,000 for the year ended December 31, 1995 – an increase of 4.0 per cent. Gross profit margins have increased to $16,813,000 (or 34.0 per cent) for the year ended December 31, 1996 compared with $12,072,000 (or 25.0 per cent) for the same period in 1995. Net income after tax for the year ended December 31, 1996 was $450,000 compared to a net loss of $3,970,000 for the corresponding period in 1995.

Selling, administrative and general expenses have increased to $16,784,000 for the year ended December 31, 1996 from $14,746,000 for the year ended December 31, 1995. This increase was attributable to the costs of operating the newly acquired distribution territories in the U.S. and Canada as well as increased spending on brand marketing and promotion activity.

In 1996, Clearly Canadian made substantial progress in meeting its restructuring objectives in the face of a challenging beverage marketplace.

Corporate Objective

Return to growth and profitability

Progress Made

- Sales revenues increase to $50,082,000
- Profit margins increase to 34.0%
- Net income improves to $450,000 from a loss of $3,970,000 in 1995

Corporate Objective

Expand our portfolio of premium niche alternative beverages

Progress Made

Clearly Canadian launches Orbitz, North America's first "texturally enhanced" beverage

Corporate Objective

Re-acquire our distribution rights to increase revenues and brand marketing support

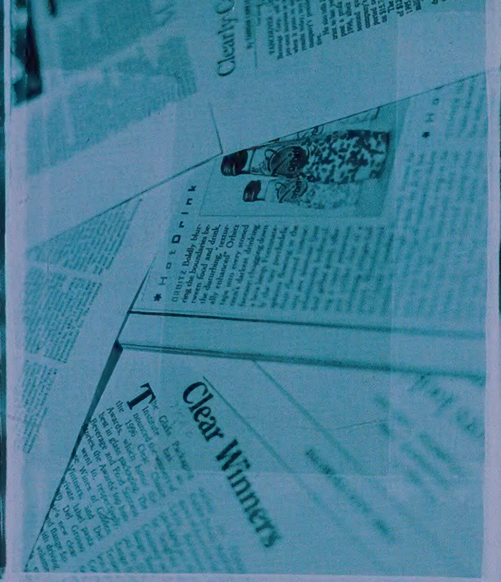
Progress Made

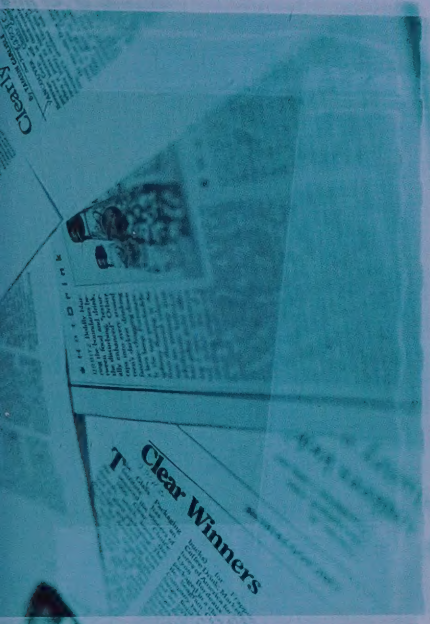
The Company is now in direct control of more than 80 per cent (by population) of its North American distribution

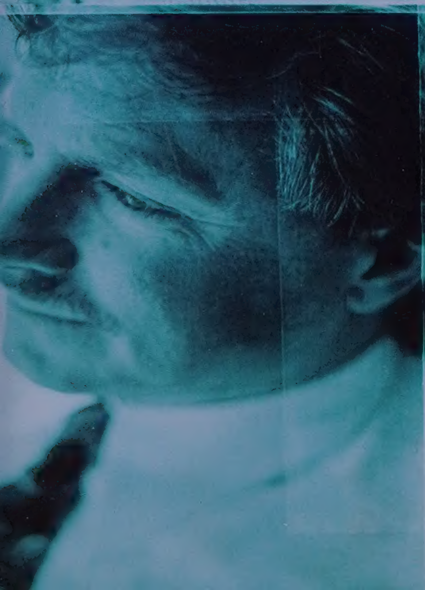
Douglas Mason

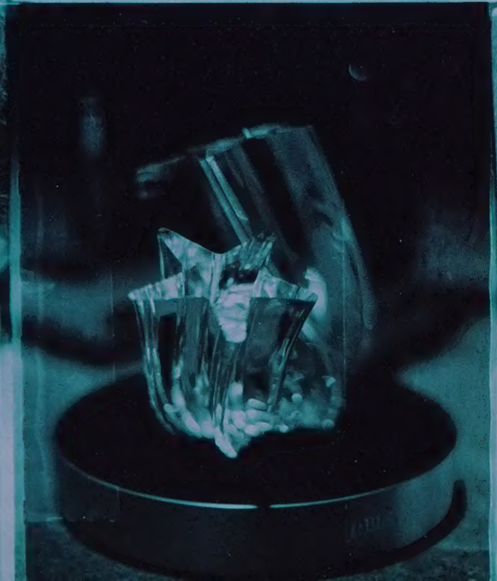
Chairman of the Board
and Chief Executive Officer

Doug is responsible for leading the Company's strategic business planning and all corporate and brand initiatives. Doug was honoured in 1992 as "Vancouver's Financial Entrepreneur of the Year" and was selected for "Who's Who Among Top Executives" in North America for 1997.





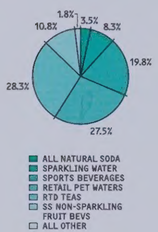




Q: How is the Company doing internationally?

A: Our North American success in 1996 also extended to international markets. Core Brand experienced distribution expansion in Europe and Asia. Clearly Canadian also announced New Zealand as the first overseas distribution agreement for Orbitz. The New Zealand launch marked the start of our efforts to introduce Orbitz in Europe, Asia and the Caribbean, particularly in those international markets where we already have established strong distribution relationships for our Clearly Canadian core brand.

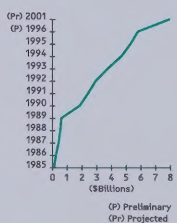
Alternative Beverage Market Segments Gallon and Case Volume Share



"Projected 1996 market share of the seven major segments in the Alternative Beverage Category"

Source: Beverage Marketing Annual Industry Survey

Alternative Beverage Market Dollar Sales (1985 – 2001)



"Alternative Beverages are projected to remain the fastest growing major beverage category"

Source: Beverage Marketing Annual Industry Survey

The Alternative Beverage Category. In the late 1980s, Clearly Canadian was one of the companies that essentially defined the Alternative Beverage category by developing products that tapped into widespread consumer demand for new, healthier alternatives to traditional carbonated soft drinks.

Over the last ten years, the entry of some of the largest players in the beverage industry and growing consumer demand for "new" beverages have legitimized Alternative Beverages as a force in the beverage industry. Today, the category has evolved to include seven distinct segments: all natural sodas, flavoured waters, sparkling juices, sports beverages, ready-to-drink iced teas and coffees, premium bottled water and single-serve fruit juices.

To no one's surprise, the explosive growth rates of the Alternative Beverage category in the late 1980s and early 1990s have proven to be unsustainable. The category is now growing at a slower but steady rate. According to the *1996 New Age Beverages in the U.S.* report by the New York-based Beverage Marketing Corporation, New Age or Alternative Beverage volume was projected to be almost 2.4 billion gallons in 1996, up 12.2 per cent from 1995's figure. Likewise the wholesale dollar value is projected to increase 9.4 per cent to $5.8 billion, and per capita consumption should grow nine-tenths of a gallon to nine gallons. By 2001, the category is projected to approach $8 billion in wholesale value and expected to grow at a compound annual rate of nearly 7 per cent.

Staying on Top. In 1996, Clearly Canadian retained its status as one of the top 10 ranked Alternative Beverage companies in terms of sales revenue (source: *1996 New Age Beverages in the U.S.*). Clearly Canadian's success is based on its ability to respond quickly to consumer needs with new products, sizes, flavours and packaging. In fact, smaller, entrepreneurial companies such as Clearly Canadian, Arizona, Mistic or Nantucket Nectars continue to be the sources of innovation for the entire industry. With the 1996 introduction of Orbitz and the re-launch of our core brand in 1997, Clearly Canadian is again demonstrating its strengths in responding to consumer demands and re-establishing itself as a leader in innovation.

What's Next for Alternative Beverages? A growing number of consumers are seeking beverages made from natural ingredients that provide tangible health and nutrition benefits. The challenge for marketers is to produce "healthier" beverages that also taste good. Clearly Canadian is seriously monitoring and responding to these consumer trends. For example, the Company is researching and developing new product lines, including "nutraceutical" or functional beverages as well as a "super-oxygenated" drink.

Outlook. The dynamics will continue to shift in our industry. What ultimately won't change, however, is the need for products to deliver on convenience, price, quality and taste. We remain focused on providing these qualities to our consumers.

Our goals for 1997 are clear. If we continue to innovate by marketing brands that consumers want, Clearly Canadian will achieve strong growth ahead of industry average and create more value for shareholders.

The blueprint is there. The continued implementation of our restructuring plan is expected to produce further improvements to our operations in 1997.

Over the longer term, our future is also very positive, yielding significant improvements to our financial returns. We have made the organizational changes that will enable us to take advantage of our leading position in the Alternative Beverage industry.

Clearly Canadian has made significant progress in the last three years and the momentum continues. Our progress would not be possible without the efforts of our dedicated employees and the support of our shareholders and distributors. We are extremely grateful for their contribution.

Douglas L. Mason

Chairman of the Board and Chief Executive Officer

1997 Priorities

Move forward with a restructured distribution system to maximize profitability and responsiveness to the marketplace.

Reduce senior management costs.

Pursue new growth opportunities through acquisitions that are non-dilutive and are suitable for Company resources.

Expand international distribution of Orbitz.

Re-launch and develop new flavours for Clearly Canadian's core brand.

Explore new product initiatives.

Service our current brands beyond customer expectations.

Review of Operations

The Sources of Our Success

The water used in Clearly Canadian's portfolio of premium alternative beverages comes from three high quality water sources the Company owns in British Columbia and Ontario. The 1996 acquisition of Blue Mountain Springs Ltd. provides a new, valuable spring water source for Clearly Canadian products.

Clearly Canadian transports water from our sources to the Company's co-bottling facilities across North America where we produce our award winning product line-up for domestic and international shipping. To supply the increasing demand for Orbitz more cost effectively, Clearly Canadian began manufacturing in two new North American co-bottling facilities in 1996.

"The timing for re-acquiring our distribution rights could not be better. Clearly Canadian's financial turnaround and successfully diversified product line have opened up distributors' doors and markets that were previously closed to us."

In 1996, Clearly Canadian continued its program of acquiring the distribution rights to its beverage products previously granted to certain master distributors and licensees in the United States and Canada. While these relationships were crucial to the early market penetration and national distribution of Clearly Canadian products – they became a layer of insulation between the brand and its ultimate customers – challenging the Company's ability to monitor real sales and inventory conditions and manage production capacities.

By re-acquiring these rights, Clearly Canadian gains direct involvement over the distribution and marketing efforts for its products. In this new system, Clearly Canadian has established "Company Managed Territories" which allow it to improve customer service and to reinvest revenues into local marketing support. The Company is now in direct control of more than 80 per cent (by population) of its North American distribution.

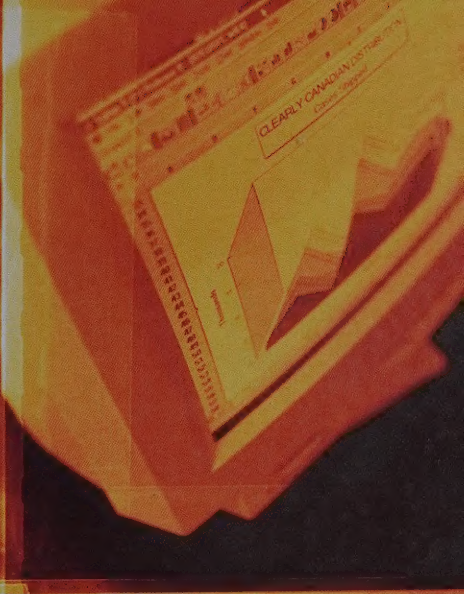
The re-acquisition of our distribution rights has led to an increase in the total number of Clearly Canadian employees. However, our increase from 50 to 75 employees in the past two years has occurred not in our administration, but in our field sales force and customer support group, which are devoted entirely to selling and promoting our brands.

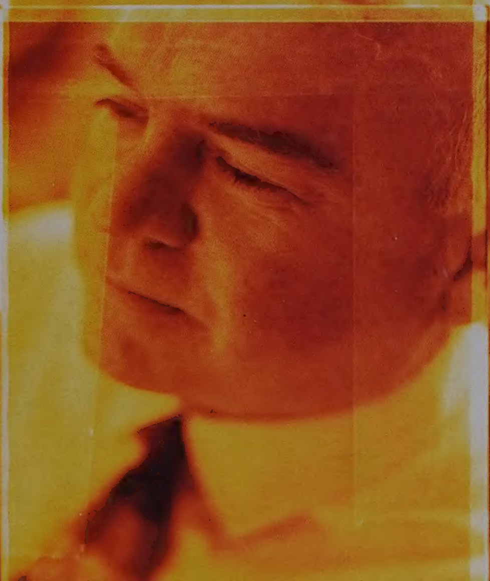
The elimination of master distributors produced gross profit increases, but also meant our customer base would increase from 10 to more than 300 distributors. This dramatic increase in customers, combined with the addition of new markets and an expanded product line-up in 1996, presented Clearly Canadian a serious challenge: how to bottle more product and ship it faster, without affecting our product quality or customer service. Our solution was to consolidate logistics, production and supply planning operations and to create a Customer Service Group. Clearly Canadian also upgraded its information systems, enabling the Company to effectively integrate the manufacturing and distribution processes into our financial and accounting systems. The results were immediate and positive. The restructuring of our internal business systems decreased Clearly Canadian's cost of sales, improved inventory turns and significantly reduced costs associated with inventory write-downs.

Glen Foreman

Chief Operating Officer

Glen has been with Clearly Canadian since its first year of operation in 1988 and directs all of the Company's sales, marketing and production functions. Before joining Clearly Canadian, Glen worked for 16 years at the Coca-Cola Corporation in Canada and the U.S.





Q: What are your plans for your Natural Artesian Water product?

A: Retail PET bottled water is the fastest growing segment in the Alternative Beverage category. Wholesale dollar sales increased 22% in 1995 and increased at a rate slightly above that in 1996. Beverage Marketing Corporation predicts sales for this segment will be more than $1 billion in 1999. Although sales of our Natural Artesian Water lagged behind the impressive growth rates of this segment, plans are in place to elevate this brand to the same success levels as Clearly Canadian core brand and Orbitz.

"Clearly Canadian conducted the most successful product launch in the Alternative Beverage category in 1996 with the North American introduction of Orbitz."

One of our objectives for 1996 was to diversify our portfolio of premium niche beverages. The reasoning was simple. You can't offer a limited range of brands and expect to keep distributors or retailers supporting your brand. Similarly, consumers are still looking for "alternatives" and are willing to try new drinks with different looks, tastes and textures. If you don't have what they want, they'll look elsewhere.

After two years of research and development, Clearly Canadian once again revolutionized the industry by introducing Orbitz – North America's first "texturally enhanced" alternative beverage. Orbitz is a distinctive non-carbonated beverage with natural fruit flavours and colourful carbohydrate-based gel spheres that seem to defy gravity by remaining suspended in the drink.

The beverage that *Rolling Stone* magazine named the "Hot Drink of 96" has received extensive international media attention. Orbitz has appeared on every U.S. television network, including programs such as the *Rosie O'Donnell Show, Today Show* and *Extra.* It has also appeared in magazines such as *Time, Newsweek, Fortune, British Esquire* and *French Elle.*

By the end of 1996, Orbitz had received approximately 116 million media impressions, which had a total advertising equivalency of more than $5 million.

Orbitz is such a visual product that Clearly Canadian spent a great deal of time developing the right packaging. The hard work paid off. The Company received several prestigious international awards for outstanding design and packaging, including the *1996 Mobius International Award,* the *1996 Clear Choice Award* from the Glass Packaging Institute and the *Visitor's Choice and Best Packaging Award* in the 1996 BevNet Beverage Awards.

Orbitz' future is extremely positive. It competes in the single serve, non-sparkling fruit beverage segment, which continues to surge, up 11 per cent in wholesale sales in 1996 after a 24 per cent increase in 1995. Clearly Canadian expects to expand distribution of Orbitz into Canada, the United Kingdom, Australia, Sweden and selected Asian countries in 1997.

The Orbitz Story

May 1996
Clearly Canadian launches Orbitz in targeted U.S. markets

June 1996
7-11 lists Orbitz for its U.S. stores

July 1996
Rolling Stone magazine names Orbitz "Hot Drink of 96"

July 1996
Orbitz roll-out continues into U.S. southeast and California; Walgreens, Safeway, Wal-Mart and Target sign on as authorized accounts

August 1996
Orbitz is featured five consecutive days on the Rosie O'Donnell show which has a television audience of 4.5 million viewers

November 1996
Clearly Canadian launches Orbitz in New Zealand

December 1996
Clearly Canadian partners with Sega of America on national promotion

Ron Kendrick

Vice President, Operations and Product Development

Drawing upon his 22 years of experience in the beverage industry and as a Past President of the Canadian Bottled Water Association, Ron directs our industry-leading product development team.

Q: What is the technology behind Orbitz?

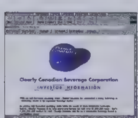
A: We've been able to suspend coloured gel spheres in the natural, fruit-flavoured Orbitz beverage through a microscopic gel network of gum particles. The spheres are made of gellan gum, an ingredient commonly found in many food products.

Orbitz is also a product line that will undergo constant development. For example, our product development team is in the process of creating new flavours and colours for new Orbitz beverages, which we will launch in 1997.

Clearly Canadian On-Line

The Internet is an efficient, extremely cost effective way to market a brand or a company. In 1996, we launched two websites.

The **orbitz.com** website has helped create the proper image for the brand. The thousands of visitors each month to our Orbitz website confirm the power of the Internet to build brands and market to consumers.



Our **clearly.ca** corporate website provides consumers, shareholders, investors and other stakeholders valuable, current information on Clearly Canadian, including financial statements and press releases.

"In 1996, Clearly Canadian stabilized sales in key markets of our core brand, which continues to be one of the best selling flavoured sparkling waters in North America."

After selling more than 1.4 billion bottles of Clearly Canadian core brand since 1988, we have remained one of the sales leaders in the North American all-natural soda segment, where wholesale sales were up in 1996, after a decline in 1995. Industry analysts predict this segment will continue to grow in 1997 (source: *1996 New Age Beverages in the U.S.*).

Our continued success reveals that despite the rush in recent years to try new flavours, consumers remain loyal to their favourite brands. Clearly Canadian core brand set a standard for the industry almost a decade ago as a quality alternative to mainstream soft drinks. But, we also recognized it was not as unique as it once was. In 1996, we began to re-focus on what made core brand a success and developed a complete brand redesign with a renewed emphasis on niche marketing support.

To revitalize core brand, Clearly Canadian will introduce distinctive new packaging in 1997, featuring a deeper "cool-blue" proprietary glass bottle and colourful fruit illustrations that have a much more dynamic shelf presence.

The new design maintains the brand's sophisticated, premium imagery and, at the same time, allows us to improve the flavour identification, better communicating our complete range.

In recognition of consumers' demands for bolder, more complex flavour combinations, we have developed three new flavours: Raspberry Cream, Strawberry Melon and Peach Mango. To complete the core brand line-up, the Company will continue to produce its most popular flavours, including Blackberry, Wild Cherry, Tangerine and Fruit & Berries.

Consumer reaction to the new design was so strong that we were also able to create a new 1 litre PET package, in addition to our glass bottle and aluminum can packaging, that provides better value to consumers, but does not undermine our premium brand image.

Clearly Canadian will concentrate marketing support for the core brand re-launch with a series of special events, sponsorships, an aggressive sampling program and a trade advertising campaign to announce the re-launch to retailers.

Jonathan Cronin

Vice President, Marketing

Jonathan began his career in advertising, working for numerous leading food and beverage companies. Today, he leads the marketing efforts for our award-winning brand portfolio at Clearly Canadian.

Q: Why don't you use traditional marketing tools like mass advertising?

A: For mass-media advertising to work, you must have a massive budget to compete with the major cola companies, which annually spend millions of dollars on television, radio and newspaper campaigns. This doesn't make business sense for Clearly Canadian. Instead, we'll continue to employ non-traditional, but cost effective, niche marketing methods that have worked successfully for us in domestic and international markets.

Auditors' Report

To The Shareholders

Clearly Canadian Beverage Corporation

We have audited the Consolidated Balance Sheets of Clearly Canadian Beverage Corporation as at 31 December 1996 and 1995 and the Consolidated Statements of Operations and Deficit and Cash Flows for the years ended 31 December 1996, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 1996 and 1995 and the results of its operations and cash flows for the years ended 31 December 1996, 1995 and 1994 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

BDO Dunwoody

Vancouver, British Columbia

14 March 1997

CHARTERED ACCOUNTANTS

Consolidated Balance Sheets

(Stated in Thousands of Dollars, except where indicated)

31 December	1996 U.S.	1996 CDN	1995 CDN
ASSETS			
Current			
Cash and short-term deposits	$10,629	$14,558	$ 4,611
Funds held in escrow, note 12(b)	625	856	1,705
Short-term investments	–	–	104
Accounts receivable, note 2	9,392	12,264	8,474
Inventories, note 3	4,847	6,638	6,277
Prepaid expenses and deposits, note 4	1,800	3,064	1,292
Corporate income taxes refundable	202	278	4,193
	27,495	37,658	26,656
Other assets, note 5	2,361	3,235	4,319
Long-term investments, note 6	4,721	6,466	981
Distribution rights, note 7	5,135	7,032	5,804
Long-term receivables, note 8	2,442	3,344	4,118
Property, plant and equipment, note 9	9,947	13,625	7,903
	$52,101	$71,360	$49,781
LIABILITIES			
Current			
Accounts payable and accrued liabilities, note 11	$ 4,441	$ 6,083	$ 7,331
Current portion of long-term debt	2,998	4,113	707
	7,439	10,196	8,038
Deferred lease inducement	196	268	338
Long-term debt, note 12	1,100	1,500	2,585
	8,735	11,964	10,961
SHAREHOLDERS' EQUITY			
Share capital, notes 13 and 14			
Issued and outstanding			
23,010,033 common shares without par value (1995–13,428,883)	50,853	69,649	49,690
Deficit	(7,487)	(10,253)	(10,870)
	43,366	59,396	38,820
	$52,101	$71,360	$49,781

Commitments and Contingencies (Note 18)

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements. Approved on behalf of the Board:

Douglas L. Mason
Director

Stuart R. Ross
Director

Consolidated Statements of Operations and Deficit

(Stated in Thousands of Dollars, except where indicated)

For the Years Ended 31 December	1996 U.S.	1996 CDN	1995 CDN	1994 CDN
Sales	$50,082	$68,592	$65,746	$88,733
Cost of sales	33,269	45,565	49,279	66,865
Gross profit	16,813	23,027	16,467	21,868
Selling, administration and general expenses	(16,784)	(22,987)	(19,977)	(27,247)
Other income (expenses)–net, note 15	602	825	(79)	1,358
Earnings (loss) before the following:	631	865	(3,589)	(4,021)
Write-down of inventory	(127)	(175)	(804)	–
Restructuring charges, note 16	–	–	(791)	(5,834)
Earnings (loss) before income taxes	504	690	(5,184)	(9,855)
Income taxes (refundable), note 17	54	73	232	(4,225)
Net earnings (loss) for the year	450	617	(5,416)	(5,630)
Retained earnings (deficit), beginning of year	(7,937)	(10,870)	(5,454)	176
Retained earnings (deficit), end of year	$ (7,487)	$(10,253)	$(10,870)	$ (5,454)
Basic earnings (loss) per share (dollars)	$0.03	$0.03	$ (0.38)	$ (0.39)
Fully diluted earnings (loss) per share (dollars)	$0.02	$0.03	$ (0.40)	$ (0.39)

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Stated in Thousands of Dollars, except where indicated)

For the Years Ended 31 December	1996		1995	1994
	U.S.	CDN	CDN	CDN
CASH PROVIDED FROM (USED FOR):				
Operating activities				
Net earnings (loss) for the year	$ 450	$ 617	$ (5,416)	$ (5,630)
Items not involving cash, note 19(a)	766	1,049	895	381
	1,216	1,666	(4,521)	(5,249)
Changes in non-cash working capital balances related to operations, note 19(b)	(455)	(623)	(185)	566
	761	1,043	(4,706)	(4,683)
Financing activities				
Net proceeds from issue of common shares	14,573	19,959	–	–
Increase in long-term debt	1,695	2,321	3,292	(6)
	16,268	22,280	3,292	(6)
Investing activities				
Repurchase of common shares	–	–	(265)	(1,691)
Deposits	(99)	(135)	(548)	(88)
Purchase of long-term investments	(4,626)	(6,336)	(121)	(860)
Proceeds on sale of long-term investments	809	1,108	–	–
Increase in long-term receivables	(86)	(118)	(343)	–
Repayment of long-term receivables	205	281	398	316
Increase in distribution rights	(1,229)	(1,683)	(4,833)	(1,125)
Purchase of property, plant and equipment	(4,875)	(6,677)	(1,232)	(2,636)
Proceeds on sale of equipment	58	80	4	–
	(9,843)	(13,480)	(6,940)	(6,084)
Increase (decrease) in cash and equivalents	7,186	9,843	(8,354)	(10,773)
Cash and equivalents, beginning of year	3,443	4,715	13,069	23,842
Cash and equivalents, end of year	$10,629	$14,558	$ 4,715	$13,069
Represented by:				
Cash and short-term deposits	$10,629	$14,558	$ 4,611	$12,966
Short-term investments	–	–	104	103
	$10,629	$14,558	$ 4,715	$13,069

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Summary of Significant Accounting Policies

(Stated in Thousands of Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

PRINCIPLES OF ACCOUNTING

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ in certain material respects from those accounting principles generally accepted in the United States. The differences are described in note 21.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange on the balance sheet date and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for amortization, which is translated at historical rates. Net gains or losses arising on translation are reflected in net earnings for the year.

EXPRESSION OF FINANCIAL STATEMENTS IN UNITED STATES DOLLARS

The financial statements presented in Canadian dollars as at and for the year ended 31 December 1996 are expressed in United States dollars solely for the convenience of U.S. readers at the rate of US $1.00 equals Cdn. $1.3696, the exchange rate at 31 December 1996. No representation is made or implied that the Canadian dollar amounts have been, could have been or could be converted into United States dollars at that or at any other rate.

CONSOLIDATION

These consolidated financial statements include the accounts of Clearly Canadian Beverage Corporation and its wholly owned subsidiaries, Clearly Canadian Beverage (International) Corporation, Clearly Canadian Beverage (US) Corporation, 546274 Alberta Ltd. and Blue Mountain Springs Ltd.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

DISTRIBUTION RIGHTS

Costs associated with the acquisition of certain territorial rights to distribute beverage products have been recorded as distribution rights. These acquisition costs are being amortized on a straight-line basis over a fifteen year period.

LONG-TERM INVESTMENTS

Long-term investments are recorded at cost less write-down for permanent impairment of values, if any.

Summary of Significant Accounting Policies continued

(Stated in Thousands of Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Amortization is provided as follows:
Water storage facilities – 10% on a declining balance basis
Equipment – 10% –30% on a declining balance basis
Computer equipment under capital lease – 30% on a declining balance basis
Leasehold improvements – straight-line basis over the term of the lease

DEFERRED LEASE INDUCEMENT

Amounts received in connection with entering into long-term operating leases for premises are deferred and brought into income as an offset to rent expense on a straight-line basis over the term of the related lease.

FINANCIAL INSTRUMENTS

The Company's instruments consist of cash and short-term deposits, funds held in escrow, accounts receivable, short-term and long-term investments, long-term receivables, accounts payable and accrued liabilities and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

PREPAID EXPENSES AND DEPOSITS

Prepaid advertising credits are amortized at the greater of straight-line basis over 30 months or actual utilization.

Prepaid promotional items are amortized at the greater of straight-line basis over 36 months or actual utilization. Discontinued items are expensed.

DEFERRED PRODUCT DEVELOPMENT COSTS

Costs incurred in the development of new products are deferred and amortized on a straight-line basis over a twelve month period.

RELATED PARTY TRANSACTION

All related party transactions are in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

Notes to Consolidated Financial Statements

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

1. Acquisition

On 24 September 1996, the Company acquired 100% of the issued and outstanding shares of Blue Mountain Springs Ltd. for a total purchase price of $4,500,000 consisting of $750,000 cash, 212,464 common shares of the Company (valued at $750,000) and promissory notes totalling $3,000,000, convertible into common shares at the option of the Company.

The only asset of Blue Mountain Springs Ltd. is land which contains a natural spring water source. The entire purchase price has been allocated to this asset and there were no liabilities.

This acquisition has been accounted for using the purchase method of accounting.

2. Accounts Receivable	**1996**	**1995**
Trade accounts receivable	$ 9,245	$6,841
Rebates and claims recoverable	2,035	1,474
Other	373	159
Current portion of long-term receivables, note 8	611	–
	$12,264	$8,474

3. Inventories	**1996**	**1995**
Finished goods	$ 4,877	$5,464
Raw materials	1,761	752
Promotional materials held for resale	–	61
	$ 6,638	$6,277

4. Prepaid Expenses and Deposits	**1996**	**1995**
Prepaid expenses and deposits	$ 1,145	$1,217
Prepaid advertising credit, current portion	490	75
Prepaid promotional items, current portion	830	–
Deferred product development costs, current portion	599	–
	$ 3,064	$1,292

5. Other Assets	**1996**	**1995**
Prepaid advertising credit	$ 1,226	$1,301
Prepaid promotional items	3,329	3,093
Deferred product development costs	599	–
	5,154	4,394
Less: current portion	1,919	75
	$ 3,235	$4,319

The Company must expend approximately $3,680,000 (1995–$3,900,000) on or before 30 June 1999 to utilize its prepaid advertising credit.

6. Long-Term Investments

Long-term investments comprise common shares in publicly traded companies and are being carried at cost of $6,466,000 (1995–$981,000). The market value of these securities was $3,651,000 at 31 December 1996 (1995–$510,000).

Where the carrying values of shares in publicly traded companies exceeds closing market prices at 31 December 1996, no write-downs have been recorded as management believes there has not been any permanent impairment in the underlying values of the investments.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

6. Long-Term Investments (continued)

The Company holds a 10% interest in a publicly-traded entity which was acquired during the year as a result of the Company's bid to acquire control. The quoted market value of the shares acquired, as at the year-end, were lower then the cost to the Company. It is management's opinion that the quoted market value is not indicative of the underlying value of the entity and that based on its long-term plans, the Company will be able to realize on its investment.

Included in long-term investments is $1,951,000 (1995–Nil) related to an investment in a company controlled by common directors.

7. Distribution Rights

	1996		1995	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Distribution rights	$7,640	$608	$5,957	$ 153
Cost less accumulated amortization	$7,032		$5,804	

8. Long-Term Receivables

	1996	1995
Advances to bottlers (a)	$ 357	$ 240
Term loan to bottler (b)	2,938	3,247
Due from officer and directors (c)	660	611
Other	–	20
	3,955	4,118
Less: current portion	611	–
	$3,344	$4,118

(a) The Company has advanced funds to certain bottlers to finance expansion of their bottling facilities. The advances are non-interest bearing and are being repaid by the bottlers based on a discount to the Company on bottling fees for each case produced. The Company retains title to the equipment until the loans are repaid in full.

(b) The Company has made advances to a bottler by way of a facility term loan. The principal amount outstanding of the loan as at 31 December 1996 was US$2,154,000, is secured by certain assets of the bottler and is due 30 April 1998. Interest has not been charged in the current year. The loan is being repaid by the bottler based on a discount to the Company on bottling fees for each case produced.

The borrower has not complied with certain terms of the loan and has experienced financial difficulty in the past two years. Although the ultimate amount of realization of the loan is not presently determinable at this time, management is of the opinion that a shortfall, if any, would not have a materially adverse affect on the Company's future operations.

The fair value of this term loan has not been provided as it is not possible to determine at this time.

(c) Amounts due from officer and directors represent funds advanced pursuant to the Company's Employee Share Purchase Plan. 68,774 shares of the Company purchased by the officers and directors have been pledged as collateral for the loans. At 31 December 1996, the Company's shares were trading at $2.55. The loans to directors are non-interest bearing and are repayable on demand or before 20 August 1997, whichever is earlier. The loan to an officer bears interest at prime plus 2% and is due on demand or before 15 January 2001.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

9. Property, Plant and Equipment

	1996		1995	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land and water sources	$ 8,082	$ –	$ 3,163	$ –
Water storage facilities	2,269	963	2,269	831
Equipment	5,360	1,983	3,763	1,401
Leasehold improvements	1,221	470	1,140	348
Computer equipment under capital lease	301	192	301	153
	17,233	3,608	10,636	2,733
Cost less accumulated amortization	$13,625		$ 7,903	

10. Bank Loan

The Company has a $5 million line of credit available with a Canadian bank. This line of credit bears interest at bank prime rate and is secured by Canadian and United States dollar deposit balances.

11. Accounts Payable and Accrued Liabilities

	1996	1995
Trade accounts payable	$ 3,674	$3,014
Accrued liabilities	2,409	4,317
	$ 6,083	$7,331

12. Long-Term Debt

	1996	1995
(a) Note payable, unsecured, bearing interest at 8.75% due 30 November 1997, convertible after 4 December 1996 at any time, at the option of either party, into common shares of the Company	$ 1,489	$1,489
(b) Note payable, bearing interest at 10%, payable quarterly at $170,500 plus interest, due 31 March 1997, secured by funds held in escrow	856	1,705
(c) Convertible promissory notes, unsecured, non-interest bearing, $750,000 repayable semi-annually, commencing March 1997, repayable in cash or shares at the option of the Company	3,000	–
(d) Mortgage payable, bearing interest at 8%, repayable at $1,460 per month, matures on 1 August 1997, secured by land	175	–
(e) Other	93	98
	5,613	3,292
Less: current portion	4,113	707
	$ 1,500	$2,585

At 31 December 1996, the fair value of the long-term debt was $5,413,000 (1995 – $3,292,000) calculated based on the amount of future cash flows associated with each instrument discounted using an estimate of what the Company's current borrowing rate for similar debt instruments of comparable maturity would be.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

13. Share Capital

Authorized

200,000,000 common shares without par value

10,000,000 preferred shares with a par value of $1 each

	Number of Shares	Amount
Issued – common shares		
Balance at 31 December 1993 and 1994	15,487,483	$60,647
Escrow shares cancelled	(475,000)	–
Balance at 31 December 1995	15,012,483	60,647
Issued for cash		
Private placements	3,997,678	6,620
Exercise of warrants	4,418,750	10,898
Exercise of stock options	15,000	32
Issued for long-term investment	1,054,722	3,218
Financing fees	95,000	206
Less: share issue costs	–	(1,015)
Total shares of Company acquired	(1,583,600)	(10,957)
	23,010,033	$69,649

As at 31 December 1996, the Company had purchased and holds 1,583,600 of its own shares. These purchases were approved by the appropriate regulatory authorities.

14. Stock Options and Warrants

Stock options:

(a) The Company has reserved 2,216,120 (1995 – 1,502,800) common shares for issuance under options granted in favour of certain directors, officers and employees of the Company. The share purchase options outstanding at 31 December 1996 were as follows:

Price	Number	Expiry
$2.10	1,487,800	April 2003
$2.16	50,000	March 2006
$2.48	168,695	April 2006
$3.00	25,000	September 2006
$2.69	400,000	October 2006
$2.95	84,625	November 2006
	2,216,120	

(b) At the Company's annual general meeting held 1 December 1989, the shareholders approved the adoption of certain shareholder protection measures to deter coercive and/or unfair takeover tactics or offers and to encourage potential acquirers in any takeover attempts to negotiate directly with the Company's board of directors. Specifically, the shareholders approved and the Company subsequently implemented (i) a "Rights Plan," the terms of which are contained within a "Rights Agreement" dated 1 October 1990, and (ii) a "Supermajority Amendment," which now forms part of the Company's articles.

In general terms, the rights issuable under the Rights Plan permit shareholders to purchase the Company's shares at 50% of the market price at the time of the occurrence of certain "triggering events." Generally, a triggering event is where a party ("acquiring person") endeavours to merge, amalgamate, acquire assets or acquire greater than 20% of the voting shares of the Company without the approval of the Company's directors. An acquiring person who causes the triggering event to occur is specifically excluded from acquiring shares under the adjustment formula provided for in the Rights Agreement. The rights adjustment does not occur where an offer to acquire shares is determined to be a "Qualified Offer." A Qualified Offer is an offer for all outstanding shares on terms determined by a majority of the Company's directors as being in the best interest of the Company and its shareholders.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

14. Stock Options and Warrants (continued)

Warrants:

(c) The Company has reserved 7,026,250 (1995 – Nil) common shares for issuance under warrants granted in respect of certain private placement agreements. The share purchase warrants outstanding at 31 December 1996 were as follows:

Price	Number	Expiry
$1.52/$1.75	1,856,250	December 1996/1997
$1.52/$1.75	500,000	January 1997/1998
$1.52/$1.75	495,000	February 1997/1998
$1.91	2,000,000	May 1997
$2.21	150,000	May 1997
$4.00	2,025,000	July 1997
	7,026,250	

15. Other (Income) Expenses

	1996	1995	1994
Interest income, net	$(1,116)	$(521)	$(1,691)
Gain on sale of investments	(257)	–	–
Other expenses	277	463	320
Interest on long-term debt	271	137	13
	$ (825)	$ 79	$(1,358)

16. Restructuring Charges

(a) During 1995, the Company decided to abandon a certain product. Costs associated with this project totalled $791,000 (1994 – $1,667,000).

(b) New legislation in the U.S. effective 1 May 1994 caused a change in labelling requirements. This resulted in the Company recording an allowance at year end 1994 of approximately $465,000 for pre-labelled glass, labels and packaging materials that were rendered unusable by the legislation.

(c) In 1994 the volume requirements of the Company declined, and the Company incurred one-time charges of $2,240,000 to payout minimum production clauses and cancel certain bottling contracts.

(d) In 1994 the Company decided to abandon its Mexican Operations. Costs associated with terminating this territory were $1,462,000.

17. Income Taxes (Refundable)

The following table reconciles income taxes calculated at a combined Canadian federal/provincial tax rate with the income tax provision in the consolidated financial statements.

	1996	1995	1994
Combined statutory rate	45%	45%	44%
Income taxes at statutory rate	$310	$ –	$(4,336)
Tax effect of:			
Non-taxable gains	(29)	–	–
Loss carry-forward	(45)	–	–
Large Corporations Tax	73	50	55
Permanent differences and other, net	(236)	182	56
Provision (Refund) (all current)	$ 73	$232	$(4,225)

The Company has non-capital losses totalling approximately $3.2 million which may be applied against future taxable income. The potential tax benefits arising from these losses have not been recorded in the financial statements. The right to claim these losses expires in 2002.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

18. Commitments and Contingencies

(a) The Company has entered into operating leases for certain office equipment and premises. Total payments required under these leases are as follows:

1997	$675
1998	698
1999	713
2000	516
2001	400

(b) The Company entered into management contracts with senior officers, directors and companies controlled by directors and officers for terms of two to five years. These contracts require the Company to pay employment and management fees totalling approximately $1.7 million per year. The contracts also require the Company to assume certain monetary obligations to the senior officers, directors and companies controlled by directors in the event of termination of the contracts by the Company without cause. The minimum aggregate obligation to be assumed by the Company in these circumstances as at 31 December 1996 is approximately $7 million (1995–$8 million).

(c) Action Commenced by Minardi Team Formula 1

A statement of claim was filed against the Company, and other defendants, whereby the plaintiff, Minardi Team Formula 1, claims US$927,828 for displaying the logo of the Company on their vehicle. The Company's position is that at no time did it enter into any contract with the plaintiff and that the person with whom the contract was allegedly with did not have any authority to act as an agent for the Company.

(d) Class Action Law Suits

The Company and certain of its officers and directors (the "Defendants") were sued in 1994 in three Class Action law suits brought under the securities law of the United States, which were consolidated on 3 December 1994 (the "Complaints"). The Complaints, as consolidated and amended, were brought on behalf of persons who purchased the stock of the Company on NASDAQ between 3 August 1992 to 19 July 1994. The Defendants moved to dismiss the Complaints on various grounds and the Plaintiffs moved to certify the class described in the Complaints. The motions to dismiss were denied by the Court, but large portions of the amended Complaints were stricken. Additionally, the Plaintiff's motion to certify the class was denied. On 9 November 1995, the parties entered into a Memorandum of Understanding concerning settlement of the Complaints and subsequently entered into a Stipulation of Settlement which was submitted to the Court, along with Notice to the Class Members, on 11 April 1996 for approval. On 19 April 1996, the Court gave its preliminary approval to the Stipulation of Settlement and set down a schedule of events leading to a final approval hearing. Subsequently, the Court approved an amended schedule of events. In accordance with the amended schedule of events, the mailing of the Notice to Class Members was completed on or before 10 May 1996 and publication of the Notice was completed on or before 14 May 1996. Pursuant to the amended schedule of events, the last day for Class Members to request for exclusions or to provide other comments to the settlement, plan of allocation and Plaintiff's Counsel's fees and expenses was 17 June 1996. As of that date, Plaintiffs' counsel had not received any requests for exclusions or other comments to the settlement from Class Members. On 2 August 1996, documentation dealing with the fairness of the settlement was filed with the Court and the parties to the Complaints are presently awaiting final Court approval to the settlement. In connection with the settlement, the Company and its insurer, Coronation Insurance ("Coronation"), have paid an aggregate of US$2,500,000 into an escrow account pending Court and Class Member approval of the settlement. Of the US$2,500,000 settlement funds, the Company has advanced the sum of US$500,000 and Coronation has advanced the sum of US$2,000,000, each on a without prejudice basis, reserving their respective right to challenge the amounts of their contributions to the settlement funds. The Company has included its US$500,000 payment in prepaid expenses and deposits. The Company and Coronation Insurance are in dispute as to the allocation of settlement and defense costs and in connection therewith, Coronation has filed a Petition in the British Columbia Supreme Court regarding the interpretation of the directors and officers liability insurance policy issued to the Company by Coronation. The Company takes the position that it is entitled to a full reimbursement from Coronation for all settlement and defence costs.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

18. Commitments and Contingencies (continued)

(e) Action Commenced by Bush Boake Allen Inc. ("BBA")

A claim was filed against the Company on 19 December 1996 whereby the plaintiff, Bush Boake Allen Inc. claims the Company has infringed on a BBA patent and violated certain proprietary rights of BBA. The Company has taken the position that the allegation has no merit and is vigorously defending the action. Presently no amount has been filed or determined for the claim.

(f) The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. Management is of the opinion the settlement of the claims will not have a material adverse effect on the Company's future operations.

19. Cash Flow from Operating Activities

	1996	1995	1994
(a) Items not involving cash			
Allowance for doubtful accounts receivable	$ 46	$ 49	$ 1
Gain on sale of investments	(257)	–	–
Amortization	1,330	916	450
Amortization of deferred lease inducement	(70)	(70)	(70)
	$ 1,049	$ 895	$ 381

(b) Non-cash working capital related to operations			
Changes in:			
Funds held in trust	$ 849	$ (1,705)	$ –
Accounts receivable	(3,225)	(1,605)	5,177
Inventories	(361)	2,315	2,909
Prepaid expenses	(553)	(889)	1,421
Accounts payable and accrued liabilities	(1,248)	1,824	(4,737)
Corporate income taxes refundable (payable)	3,915	(125)	(4,204)
	$ (623)	$ (185)	$ 566

20. Segmented Information

The Company operates principally in the beverage industry and exports to various countries in the world. Sales, operating profits and identifiable assets relative to these geographic segments are presented below.

Sales	1996	1995	1994
Canada	$ 7,251	$ 8,612	$ 8,927
United States	56,446	51,112	73,799
Europe	3,354	4,846	3,951
Other	1,541	1,176	2,056
	$68,592	$65,746	$88,733

Operating profit (loss)	1996	1995	1994
Canada	$ 685	$ (2,202)	$ (3,602)
United States	337	(491)	–
Others	(157)	(896)	(419)
	$ 865	$ (3,589)	$ (4,021)

Assets	1996	1995
Canada	$52,857	$32,147
United States	16,518	14,092
Others	1,985	3,542
	$71,360	$49,781

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

21. Reconciliation to Accounting Principles Generally Accepted in the United States of America

As disclosed in the summary of significant accounting policies, these consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada.

Differences in generally accepted accounting principles (GAAP) between Canada and the United States as they pertain to these consolidated financial statements are as follows:

		1996	1995	1994
Gross profit per Canadian and United States GAAP		$23,027	$16,467	$21,868
Selling, administrative and general expenses		22,987	19,977	27,247
Other (income) expense		(825)	79	(1,358)
Write-down of inventory, note 21(a)		175	804	–
Restructuring charges per United States GAAP, note 21(b)		–	791	5,834
Incremental costs per United States GAAP, note 21(c)	112	516	–	–
Long-term investments, note 21(d)	112	(2,229)	(263)	(189)
Earnings (loss) before income taxes per United States GAAP		(2,055)	(5,447)	(10,044)
Income taxes (refund) per United States GAAP	Diff	47	232	(4,225)
Net (loss) for the year per United States GAAP		$ (2,102)	$ (5,679)	$ (5,819)

(a) Write-down of Inventory
Under United States GAAP, write-down of inventory would be reported as part of cost of sales.

(b) Restructuring Charge Disclosure
Under United States GAAP, earnings before restructuring charges would not be separately identified. The appropriate disclosure of the restructuring charges described in note 16 is as per the above table.

S/C

(c) Incremental Costs
Under United States GAAP, directors fees would be considered incremental costs and would not be capitalized but would be recorded as a period expense. As a result, long-term investments would decrease by $182,000 (1995 – Nil), distribution rights would decrease by $82,000 (1995 – Nil), property, plant and equipment would decrease by $26,000 (1995 – Nil), other assets would decrease by $112,000 (1995 – Nil) and share capital would increase by $114,000 (1995 – Nil). Also, other income and net income shown on the consolidated statements of operations and deficit for the year ended 31 December 1996 would decrease by $516,000 (1995 – Nil) and $516,000 (1995 – Nil), respectively.

R/E effect 516
(114)
402

(d) Long-Term Investments
Under United States GAAP long-term investments would be shown at fair market value. As a result, long-term investments shown on the consolidated balance sheet at 31 December 1996 would decrease by $2,229,000 (1995 – $263,000; 1994 – $188,850) and deficit would increase by $2,229,000 (1995 – $263,000; 1994 – $188,850). Also, other income and net income shown on the consolidated statements of operations and deficit for the year ended 31 December 1996 would decrease by $2,229,000 (1995 – $263,000; 1994 – $188,850) and $2,229,000 (1995 – $263,000; 1994 – $188,850), respectively.

R/E 2229
263
188.85
2680.85

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

21. Reconciliation to Accounting Principles Generally Accepted in the United States of America (continued)

(e) Earnings per Share

United States GAAP require that escrow shares not be included in the weighted average number of shares outstanding and outstanding stock options and warrants would be considered as common share equivalents for purposes of calculating primary and fully diluted earnings per share under the treasury stock method.

Primary loss per share under United States GAAP are summarized as follows:

	1996	1995	1994
Primary loss per share	$(0.09)	$(0.42)	$(0.42)

For the above-noted periods, fully diluted loss per share under United States GAAP are equivalent to primary earnings per share.

The primary weighted average number of shares outstanding for the year ended 31 December 1996 was 23,875,002 (1995 – 13,459,212; 1994 – 13,896,980).

(f) Loans to Directors and Officers

United States GAAP requires amounts receivable from directors and officers resulting from sales of shares to be reported as deductions from shareholders' equity.

As a result, long-term receivables and share capital shown on the consolidated balance sheets as at 31 December 1996 would decrease by $660,000 (1995 – $611,000) under United States GAAP.

(g) Accounting for Income Taxes

Effective 1 January 1993, the Company would, if it were subject to U.S. GAAP, be subject to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This statement requires that deferred taxes be computed using the liability method. Adopting this standard would have no effect on net income of the Company for any of the periods presented.

In the United States, generally accepted accounting principles require additional disclosure in accordance with Financial Accounting Standards Board Statement No. 109, Accounting For Income Taxes ("FASB 109") as follows:

Deferred Tax Assets (Liabilities), 31 December 1996		Statutory Tax Rate	
Tax liability related to depreciation	$ (667)	.45	$ (300)
Tax benefit of loss carry forwards	5,857	.30	1,776
Valuation reserve			(1,476)
			$ –

Deferred Tax Assets (Liabilities), 31 December 1995		Statutory Tax Rate	
Tax liability related to depreciation	$ (435)	.45	$ (196)
Tax benefit of loss carry forwards	6,471	.32	2,071
Valuation reserve			(1,875)
			$ –

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

21. Reconciliation to Accounting Principles Generally Accepted in the United States of America (continued)

(h) Cash and Equivalents

United States GAAP does not permit short-term investments with maturity beyond ninety days from the period end, or bank loans, to be included in cash and equivalents on the statement of cash flows.

As a result, these balances would be excluded from cash and equivalents and the change during each year would be reflected in operating and investing activities under the United States GAAP as follows:

	1996	1995	1994
Operating activity			
Loss (gain) on sale of investments	$ –	$ –	$ (337)
Investing activities			
Purchase of investments	–	(1)	(162)
Proceeds from sale of investments	104	–	13,029
	104	(1)	12,867
Increase (decrease) in short-term investments	$ 104	$ (1)	$12,530
Financing activity			
(Decrease) increase in bank loan	$(1,580)	$1,580	$ –

(i) Sales and Credit Concentration

Financial Accounting Standards Board Statements Nos. 30 and 105 require disclosure and information about the activity, region, or economic characteristic that identifies a concentration of credit risk related to revenue derived from customers who represent more than 10% of total revenue. In 1996, no one customer represented more than 10% of total revenue (1995–pursuant to certain master distribution agreements, approximately 20% of total revenue was derived from one customer). Sales are on an unsecured open account basis under specific credit terms. The agreements allow the Company to make alternative distribution arrangements within the relevant territories under certain conditions, including a business failure of a master distributor.

(j) Stock Compensation Plans

At 31 December 1996, the Company has five stock option plans, which are described in Note 14(a). The Company applies APB Opinion 25, *Accounting for Stock Issued to Employees,* and related Interpretations in accounting for the plans. Under APB Opinion 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation cost is recognized.

Under all plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years.

FASB Statement 123, *Accounting for Stock-Based Compensation,* required the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for the Company's stock option plans had been determined in accordance with fair value based method prescribed in FASB Statement 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1996: dividend yield of nil; expected volatility of 113 percent; risk-free interest rates of 3.5 to 5 percent; and expected life of 1 year.

Notes to Consolidated Financial Statements continued

(Figures in Tables are Stated in Thousands of Canadian Dollars, except where indicated)

For the Years Ended 31 December 1996, 1995 and 1994

21. Reconciliation to Accounting Principles Generally Accepted in the United States of America (continued)

Under the accounting provisions of FASB Statement 123, the Company's United States GAAP net loss and loss per share would have been reduced to the pro forma amounts indicated below:

Net income	1996
As reported	$(2,102)
Pro-forma	$(2,950)
Primary loss per share	
As reported	$ (0.09)
Pro-forma	$ (0.12)

A summary of the status of the Company's five fixed stock option plans as at 31 December 1996 is presented below:

	31 December 1996 Shares #000	Weighted Average Exercise Price
Outstanding at beginning of year	1,503	$2.10
Granted	728	$2.65
Exercised	(15)	$2.10
Outstanding at year end	2,216	$2.28
Options exercisable at year end	2,216	$2.28
Weighted average fair value of options granted during the year	$ 1.16	

The following table summarizes information about fixed stock options outstanding at 31 December 1996.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 31 December 1996	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 31 December 1996	Weighted Average Exercise Price
$2.10	1,488	8	$2.10	1,488	$2.10
$2.16 – $3.00	728	10	2.65	728	2.65
$2.10 – $3.00	2,216	8.7	$2.28	2,216	$2.28

22. Comparative Figures

Certain comparative figures have been reclassified to conform with the current years presentation.

Corporate Information

Board of Directors

Douglas L. Mason

Glen D. Foreman

Stuart R. Ross

Bruce E. Morley

D. Bruce Horton

Michael S. Gustavson

Brian J. Kerr

John R. Bell

Management Corporate Officers

Douglas L. Mason
Chairman of the Board and
Chief Executive Officer

Glen D. Foreman
Chief Operating Officer

Stuart R. Ross
Executive Vice-President

Bruce E. Morley
Vice-President, Legal

D. Bruce Horton
Chief Financial Officer

Nigel G. Woodall
Vice-President, Accounting and
Administration

Ron Kendrick
Vice-President, Operations and
Product Development

Jonathan Cronin
Vice-President, Marketing

Tom Koltai
Vice-President, Logistics and
Sales Services

Head Office

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charmainedasilv@sunbeach.net

Listing of Capital Stock

The common shares of the Company are listed in Canada on the Vancouver Stock Exchange (CLV) and in the U.S. on NASDAQ (CLCDF).

Transfer Agent

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Vancouver, British Columbia
Canada V6C 3B9

The Annual Meeting of Shareholders

The 1997 Annual Meeting of Shareholders will be held on June 27, 1997 at 10:00 a.m. at:
Hyatt Regency Vancouver
655 Burrard Street
Vancouver, British Columbia
Canada V6C 2R7

Shareholder Information

Shareholders seeking information regarding change of address, stock transfer, registered shareholdings, dividends and lost certificates may contact The Montreal Trust Company at 1-888-661-5566.

Investor Information

Requests for a copy of the Annual Report or annual filing on Form 20F, as filed with the Securities and Exchange Commission in Washington, D.C., or other shareholder inquiries should be directed to:

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